



1939

Economic Conditions Governmental Finance United States Securities

New York, January, 1939

General Business Conditions

THE year 1938 has closed with some indications that the business upswing is leveling off, but with few signs that any considerable decline in activity is to be expected; and on the whole business men who venture opinions as to 1939 are looking for a moderately good year. The slackening in industrial operations toward the year-end has been mostly seasonal, with steel the only major industry in which the decline has been appreciably greater than usual. A number of cotton mills were closed during the holiday week, which is a frequent practice except in very good years. Otherwise the slowing up has been chiefly in outdoor work, or in lines that are between seasons.

Business sentiment has been prepared for a flattening out of industrial activity around this time. Most analyses of the situation have emphasized that the rise has been uninterrupted for a period of six months, and that it has proceeded more rapidly than any other forward movement on record, over a like time. This is sufficient reason for expecting it to slow down. When the upswing began production had run below consumption for some months, and inventories in many places had been drawn down as far as was practicable. The resulting need for goods gave the improvement a strong momentum at the beginning, which was accelerated by other factors once it was clear that a real turn had been made. Naturally, however, the momentum originating from deferred needs slackens as production is expanded and the needs are satisfied; and the industries which have moved fastest have to mark time or slow down until the situation is ready for another step forward.

On the other hand, it seems equally correct to say that, irrespective of temporary fluctuations, the upward movement has not gone far enough or lasted long enough to overload the markets seriously, raise costs unbearably, or set up other important maladjustments, such as might reverse the main trend. Few of the signs which ordinarily precede a major contraction of business activity are evident. The

commodity markets have given no indications of over-speculation; on the contrary, the volume of trading has been small and prices have had no great advance. Retailers' and wholesalers' stocks range from normal to low, and merchandise buyers have been conservative in covering early 1939 requirements.

Bank borrowings have not increased. Security markets have been orderly. There has been no excess of debt-making to require liquidation. Moreover, business by any standard is still severely depressed, and of course it has a long way to go before running into the restrictive influences of bottlenecks in productive capacity, labor shortage, over-extension of credit, or the other factors upon which booms usually come to grief.

Influences for Improvement

In addition to the foregoing, two positive influences, which have given important support to business during the last half year, will continue effective. Government expenditures have been running at the highest rate on record. In the first half of 1939 they will continue at the record level, according to present indications, and the cash deficit will be very much larger than in the last half of 1938. Although business sentiment everywhere takes account of the fact that Government debt is not a secure or lasting basis for recovery, the Government checks, to the extent that they are not offset by taxes and other receipts, represent added buying power in peoples' pockets. The disbursements will give support as long as they last.

Another influence supporting the upswing is the rise in building contract awards to the highest level, for this time of the year, since 1929. In November the total was 52 per cent over the same month of 1937, according to the Dodge figures, and in the first three weeks of December the increase was 61 per cent. Public building contracts have run approximately twice as large as a year earlier, while the improvement in the privately owned classification has been in the neighborhood of 15 per cent. It is believed by most students of building that further gains will be made early in 1939, and

of course there is a time lag between the award of contracts and the expenditure of the funds, which is the source of the employment and payments for materials.

Whatever business men may feel as to the eventual effects of the public works spending, business has not had this much support from the great construction industry since the depression began; and it would be almost unprecedented to go into a slump while building activity is rising and Government expenditures increasing to the degree stated.

More Capital Goods Business Needed

The natural tendency of business, from the situation described, is to move upward, with the gains extending from one area to another. The first stage of normal recovery occurs in the industries producing goods of every-day use, and if events take their natural sequence the second stage is the spread of the improvement into the industries which are dependent upon capital expenditures. All experience shows that the critical period of a business upswing is the point at which it is due to pass from one stage to the other.

The present upswing has extended to most of the consumer goods industries, and it is not reasonable to expect that they can carry business much higher without greater support from the machinery and equipment fields, and from new projects of all kinds. Machine tool manufacturers have experienced a decline in foreign orders, without a fully offsetting increase in domestic business, though inquiries are active. The outlook for railway equipment purchases has improved as traffic and earnings have increased, and the orders placed during the Winter will evidently be a little better than was expected some time back, though still subnormal.

The incentive to put in new and better plants and machinery, for the purpose of reducing costs, is always present, and all the past progress that the industries have made has been through adherence to this practice. The reduction in costs is needed even more in time of depression than in time of prosperity. However, the barriers to capital investment that have existed through the depression are still hard to break down. They are, first, the unwillingness of business to take the risk of long-term commitments, and, second, the difficulty of financing, in view of the capital losses that have been incurred, the reduced earnings available for reinvestment, and the drying up of the flow of capital except into almost riskless fields.

The chief question in the domestic outlook for 1939, therefore, is what progress will be made toward reviving capital investment and expenditure. Apart from that question, most observers would probably say that the major uncertainties are in the foreign situation.

After the Munich Conference in September hopes ran high that the result would be a lasting appeasement of strain in European relations, and the opening of an era of security for trade and enterprise. But it would be too much to say that this has been accomplished. On the contrary, tension exists at many points and over many issues. The nations continue to rest their security upon armament rather than a reconciliation of their conflicts, and the uncertainty as to what this may eventually lead to is a source of anxiety everywhere. The drop in the pound sterling stands as a constant reminder of the unsettlement abroad.

Outlook in Trade and the Industries

In the wholesale merchandise markets January is likely to be a good month, getting the Spring apparel trade off to a good start. Department and variety store buyers have been conservative, and the Christmas trade has been satisfactory. Dollar sales of department stores have run slightly ahead of last year, according to Federal Reserve Board reports. The increase in transactions and in the volume of goods moved has been greater, due to the lower prices prevailing and the tendency of consumers to concentrate on cheaper merchandise.

Automobile operations usually slacken before the holidays, since dealers are generally stocked with new models and two poor sales months are ahead. Thus far, however, assemblies have been reduced in only a few plants. Retail deliveries in December as in November have run well ahead of 1937, and dealers' stocks have increased less than usual at this season. Some producers at least will go along on present schedules for a time, while all expect to give considerably more employment during the dull months than they were able to a year ago. The assembly rate during the past quarter has been equivalent to an annual output of almost 4,000,000 cars. Whether sales for the model year will reach this figure is a question which the producers are not yet prepared to answer. Their operating schedules, however, are warranted by current sales, whereas in the closing months of 1937 they were based upon expectations which were not fulfilled.

Structural steel business has picked up with the building improvement, and in the tinplate and railroad equipment divisions of the steel industry higher operations are looked for. The decline in the steel rate during December has reflected completion of orders for rolled products placed early in the Fall, and this division may be slow to regain the November peak, considering that buyers have stocks on hand and that automobile operations may slacken for a time. Undoubtedly the trend of steel production will be upward from the New Year's low, but whether the increase will be as marked as usual appears questionable. According to the calculations of the Federal Reserve Board,

the seasonal expectation calls for consecutive rises in ingot production of 10, 9, and $7\frac{1}{2}$ per cent in January, February and March. Based on operations of 54 per cent of capacity in December, and making allowance for different numbers of working days, increases of this extent would result in rates of 59, 66 and 73 per cent, respectively. These rates are above current expectations in the industry.

Tire manufacturers are confident of an active year, with replacement sales up as well as original equipment, and the total making possibly a 25 per cent increase. The favorable elements in the textiles are the satisfactory retail prospect and low stocks in distributors' hands; the woolen division has heavy unfilled orders, and advance clothing sales for Spring have run well ahead of last year. The chief weakness in the textile situation is the unprofitable level of cotton goods prices.

Money and Banking

Gold imports, together with Treasury disbursements for other purposes out of balances on hand in the Federal Reserve Banks, continued to add to money market funds during the early part of December, carrying excess reserves of member banks to a new all-time high of approximately \$3,500,000,000 on the 14th.

In the succeeding week reserves declined sharply, reflecting rising currency needs before Christmas, income tax collections and cash payments for new Treasury securities on the 15th. During this period, money in circulation increased to a new peak since the banking holiday of 1933, while the Treasury's account at the Federal Reserve rose more than \$600,000,000 to \$1,025,000,000, the highest in six months. Excess reserves, in these circumstances, declined \$500,000,000 to slightly under \$3,000,000,000, but are expected to rise again in January, as seasonal currency is redeposited and Treasury disbursements again exceed receipts.

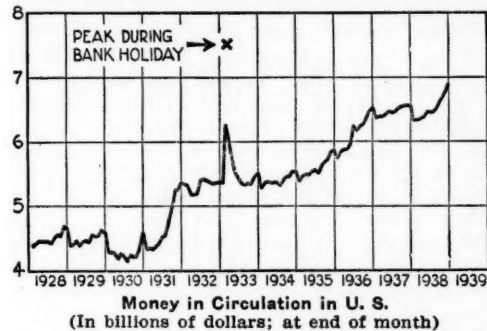
Estimating post-holiday currency retirement at \$375,000,000 to \$400,000,000, and bearing in mind the Treasury's recently expanded deposits in the Reserve Banks (to say nothing of over \$600,000,000 of "free" gold in the Treasury available for use), it is evident that the potential additions to excess reserves over coming weeks are large, apart from gold imports which, to the extent received, will also augment the supply of funds.

During December gold imports continued on a substantial scale, though much reduced from the war crisis peak. For the four weeks to the 28th, monetary gold stocks of the United States increased \$200,000,000 to a new high record of \$14,500,000,000.

The Rise of Currency in Circulation

We have referred above to the rise of currency in circulation to the highest levels since

the banking holiday of 1933. A rise in the later months of the year is, of course, to be expected owing to seasonal activities, including Christmas shopping requirements, but this explanation falls far short of accounting for the quantity of currency now outstanding. At \$6,943,000,000 on December 21, the total was not only \$260,000,000 higher than the Christmas peak last year but more than \$2,000,000,000 above the average in 1929 when the volume of general business was greater. The following diagram shows the quantity of money in circulation at the end of each month since 1928.



Influences other than seasonal contributing recently to the increase of currency have included the recovery of business since June, and the development of some hoarding demand for United States dollar bills, chiefly abroad, during the war crisis. During September and October New York banks were called upon to ship \$25,000,000 of United States money to Europe, although these are months when currency is usually returning to this country, following expenditures by tourists during the Summer. Another factor has been a tendency on the part of banks to carry more vault cash, due apparently to the fact that the growth of excess reserves has lessened the incentive for prompt deposit of excess currency in the Reserve Banks for credit. For the weekly reporting member banks in 101 principal cities, cash in vault reached in December a new high record, approximately \$126,000,000 higher than a year ago. Curiously enough most of this increase was in the Boston district.

For the rise of circulation since 1929 various explanations have been suggested, some having a statistical basis, others largely surmise. Ordinarily movements of currency of this magnitude are associated with parallel fluctuations in business and prices, yet in this instance business has been almost continuously below 1929 and prices continuously so. Banking troubles, of course, account for the rise in 1931, 1932 and 1933, but do not explain the rise since. In an article on the trend of circulation appearing in the December, 1938, Federal Reserve Bulletin, various possible explanations, additional to those mentioned above, are sug-

gested, including (1) a continued disposition on the part of some sections of the public to carry savings in the form of currency rather than in banks, notwithstanding the safeguarding of bank deposits after 1933 by Federal deposit insurance; (2) reduction of interest rates on savings and other time deposits, and extension of service charges on checking accounts; (3) relief payments, made to large numbers of people without bank accounts, with a consequent increase in the use of currency; and (4) increased demand for coin in connection with imposition of sales taxes in many States and cities.

It may be noted in passing that while Federal Reserve notes, aggregating \$4,470,000,000 at the last report, still comprise the bulk of the circulation, having risen from around \$3,000,000,000 in 1934, the quantity of silver certificates in circulation has increased, as a result of silver purchases, from \$400,000,000 in June, 1934, to \$1,300,000,000 at the present time, and is still rising. National bank notes, which in 1934 amounted to around \$900,000,000, are in process of retirement and now total about \$200,000,000, representing notes not yet presented for redemption.

With the volume of currency outstanding already far in excess of that in 1929, there is evidently little support for the doctrine frequently advanced that additional currency issues are needed to restore prosperity. That the increase in currency described has taken place without credit strain has been due to the huge volume of excess funds in the banks. But for this currency increase, the quantity of excess funds to be dealt with would have been much greater; and any tendency for circulation to return to its former levels will, unless offset by other factors, raise excess reserves accordingly.

Other Banking Changes

Condition statements of reporting member banks were influenced largely by Government financial operations during the month. The December Treasury financing included a cash offering of \$400,000,000, or thereabouts, of 22-27-year $2\frac{3}{4}$ per cent bonds and \$300,000,000, or thereabouts, of 5-year $1\frac{1}{8}$ per cent notes; also an offer to holders of \$941,613,750 of $1\frac{1}{2}$ per cent notes maturing March 15, next, to exchange such notes for additional amounts of either of the cash offerings or for a new series of 9-year 2 per cent bonds. The cash offerings were heavily oversubscribed, allotments running 7 and 9 per cent, respectively, of total subscriptions, and all but approximately \$12,000,000 of the maturing March notes were tendered for exchange, investors displaying a strong preference for the bonds, especially the 9-year 2s.

Owing principally to Government borrowing, total earning assets of reporting banks expanded sharply in December. Holdings of

United States Government direct obligations increased \$253,000,000 over the 15th, and on the 21st combined holdings of Government direct and guaranteed issues, totaling \$10,051,000,000, were the largest since March, 1937. Even so it is interesting to note that these banks, holding over 57 per cent of the loans and investments of all insured banks, took only about one-third of the securities offered for cash. There were other buyers for large amounts.

Loans by the banks to brokers and dealers increased, as usual, in the weeks prior to the Government financing, when dealers ordinarily borrow to carry issues with conversion privileges. Loans to commerce and industry, on the other hand, showed a further slow decline to a new low for the year. Although a decline in commercial loans in the later months of the year is not unusual, the recent trend has been especially disappointing in that the Fall peak was so low. Compared with the close of 1937, commercial loans are down nearly \$750,000,000, a decrease which suggests the reluctance of merchants to accumulate inventory, notwithstanding the substantial rise of general business activity since last June.

Treasury Borrowing Without Cost

In the short-term money market, a feature was the sale by the Treasury of two issues of its weekly discount bills at par or better, meaning that the Treasury was able to obtain money in a free and open market without cost to itself, and even, for part of the amounts asked for, to be paid a small premium for borrowing. Inasmuch as for some time the rates on Treasury bills have been near the vanishing point, the actual change represented was insignificant; nevertheless, the event was probably unique in monetary history and emphasizes in a striking manner the extraordinary monetary conditions prevailing. Apart from the general pressure of surplus funds upon all interest rates, various special factors have been influential in the demand for Treasury bills, including year-end window-dressing by banks and business concerns, also taxes levied by some States and communities upon bank deposits at certain dates which make it worth while for large depositors to shift funds into Treasury bills over such dates, without interest and even at a small cost.

It is pertinent to add that despite the disappearance of interest on bills, the over-all interest cost of the public debt was raised by the December 15th financing to an annual rate above \$1,000,000,000 for the first time since 1923 when the debt was much lower but interest rates were much higher.

Bill Rates and Federal Reserve Policy

The conditions prevailing in the Treasury bill market have made it difficult for the Federal Reserve System to replace its weekly maturi-

ties of Treasury bills without paying above par. In the week ended Dec. 28, for example, \$30,-000,000 of the maturity of bills were replaced with Treasury notes, and the market price of notes rose to even higher levels than recently.

In recognition of these conditions, the Federal Reserve open market investment committee on December 30 gave notice that bills maturing in the System's portfolio might not be immediately or wholly replaced when the market situation was such as to impose difficulties. It was stated, however, that any fluctuations in the System's open market holdings on this account were not to be interpreted as indicating a change in Federal Reserve policy, but only as a reflection of technical market conditions. The full statement of the Federal open market committee follows:

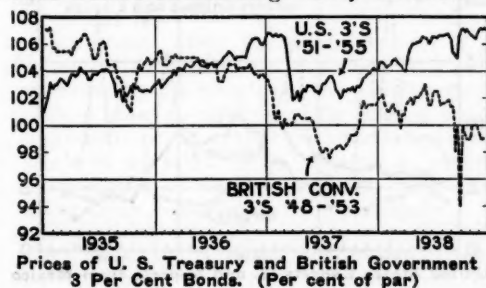
The Federal open market committee announced, following a meeting today, that weekly statements of the total holdings in the Federal Reserve system's open market account may at times show some fluctuation depending upon conditions in the market affecting the committee's ability to replace maturing Treasury bills held in its portfolio.

The volume of Treasury bills available on the market has declined materially during the year, and owing to the large and increasing demand such bills are already selling either on a no-yield basis or at a premium above a no-yield basis. It has, therefore, become difficult, and in some weeks impossible, for the system to find sufficient bills on the market to replace those that mature. Short term notes are also selling on a no-yield basis and longer term notes have at times been difficult to obtain.

In these circumstances, it may be necessary from time to time to permit bills held in the portfolio to mature without replacement, not because of any change in Federal Reserve policy but solely because of the technical situation in the market. Because no change in Federal Reserve policy is contemplated at this time, maturing bills will be replaced to the extent that market conditions warrant.

Bond Prices at Record High

Prices of United States Government bonds, after an easier tendency in November, developed renewed strength in December when most of the list went into new high ground. High grade corporate and municipal bonds were likewise strong, with numerous communities borrowing at record low rates for all time. The accompanying diagram, comparing prices of United States Treasury and British Government bonds of similar coupon and nearest comparable maturities over the past four years, is of interest as showing the divergent trend of gilt edge security prices in the world's two leading money markets.



New corporate financing during December, totaling approximately \$250,000,000, was larger than in November and above the monthly average for the year. For the final quarter of the year, the volume of new issues was the largest since the second quarter of 1937, but only about one-fourth of the total represented new money, the balance being for refunding purposes. During December and throughout the year corporate financing was almost entirely in the form of bonds or notes, stocks comprising but a small portion of the totals. The accompanying table gives a comparison of corporate financing during the past three years and in the period 1925-29. Figures are on a monthly average basis.

Domestic Corporate Security Issues* Monthly Average (In millions of dollars)					
	New Capital	Refund- ing	Total	Bonds & Notes	Stocks
1925-29	363.0	104.0	467.0	277.0	190.0
1936—1st Q.	45.7	306.1	351.8	335.3	16.0
2nd Q.	105.8	391.0	496.8	435.6	61.2
3rd Q.	105.1	153.9	259.0	222.3	36.7
4th Q.	140.7	278.1	418.8	348.6	70.2
1937—1st Q.	129.2	208.2	337.4	221.9	115.5
2nd Q.	141.5	109.4	250.9	183.4	67.5
3rd Q.	81.7	50.8	132.5	80.3	52.2
4th Q.	45.5	31.4	76.9	62.8	14.1
1938—1st Q.	36.8	41.2	78.0	75.1	2.9
2nd Q.	82.4	62.4	144.8	135.8	9.0
3rd Q.	104.9	103.9	208.8	206.4	2.4
4th Q.	50.7	193.5	244.2	225.2	18.9

*Commercial & Financial Chronicle through Nov., 1938. Investment trust issues excluded.

Silver Purchases Continue Heavy

Notwithstanding a rise of \$1,750,000,000 in United States' gold stocks during 1938 to \$14,500,000,000, or far in excess of any conceivable need, it is of interest to observe that the Treasury continues to be a heavy buyer of silver. Thus, during the year the Treasury's acquisitions of silver amounted to approximately 400,000,000 ounces, the largest since 1935, the previous record year under the silver purchase program. The imports of foreign silver during the first eleven and one-half months of 1938, valued at \$220,000,000, and equivalent to over 500,000,000 ounces at 43 cents per ounce, were likewise the largest since 1935. The domestic output, estimated at about 64,000,000 ounces, costing \$40,000,000 at the Treasury's domestic price of 64.64 cents an ounce, was about 10 per cent smaller than in 1937.

As our readers are doubtless aware, the Treasury in accumulating silver is acting under mandate of the Silver Purchase Act of 1934, which declared it to be the policy of the United States to maintain a quarter, by value, of its combined gold and silver stocks in silver, counting silver at the coinage rate of \$1.29 an ounce. However, despite persistent and heavy buying, the Treasury has been unable to bring its silver holdings in line with the objectives of the Act, and in December, 1938, the silver "shortage", according to our calculations, was still 1,167,000,000 ounces, compared with 1,118,-

000,000 ounces a year ago and 1,333,000,000 ounces in July, 1934, when the Silver Purchase Act became operative. The explanation, of course, lies in the continuous increase in the gold stock. As fast as silver was bought, the rising gold stock called for additional silver, with the result that for four and a half years the silver reserves have been "pursuing" the gold reserves without making any appreciable gain upon them. The following summary is based upon the best information available:

Relative Holdings of Gold & Silver
(000,000 omitted)

	1934 June 30	1935 Dec. 31	1936 Dec. 31	1937 Dec. 31	1938 Dec. 28
Gold Reserve (\$)	7,856	10,123	11,258	12,760	14,508
Required Silver (\$)	2,619	3,374	3,763	4,253	4,836
Required Silver (oz.)	2,026	2,609	2,903	3,289	3,780
Total Stock (oz.)	693	1,526	1,859	2,171	2,563
To be acquired (oz.)	1,333	1,083	1,044	1,118	1,167

From the inauguration of the Silver Purchase Act to December 23, 1938, the Treasury has bought about 1,870,000,000 ounces of silver, at a cost of about \$1,000,000,000, of which less than \$250,000,000 has been paid to domestic producers and for the nationalization of silver stocks in 1934. The balance went to producers and sellers abroad.

Frequent references in public discussion to the cost of the purchase program to the taxpayers appear to indicate a rather widespread misunderstanding as to how these acquisitions were financed. The fact is that the silver was paid for by issuance of silver certificates, outstanding amounts of which (including holdings by Federal Reserve Banks) have increased about \$1,000,000,000 since June, 1934. In other words, the effect of silver purchases was not to raise taxes, but to increase the currency. The reader should understand, however, that the valuation of \$1.29 an ounce placed upon silver as reserve for currency is wholly arbitrary and that actually no silver could be disposed of at that price or anything like it. At present the open market price stands at 42.75 cents per ounce, and but for the support of the United States Treasury would be much lower.

To the extent that silver certificates are issued they take the place of Federal Reserve notes in circulation; thus a currency supported by silver worth in the market about a third of the face value of the currency is supplanting the Federal Reserve note with all its carefully devised security and elasticity.

Source of Silver Imports

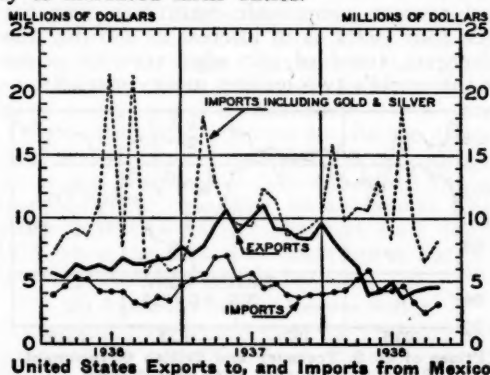
Although the Silver Act was passed for the purpose of enlarging the use of silver as money, nevertheless the bulk of the silver purchased by the United States in recent years has consisted of metal withdrawn from monetary uses. Of the estimated 500,000,000 ounces of foreign silver received in this country during the first eleven and one-half months of 1938, approxi-

mately one-half, or 240,000,000 ounces, were of Chinese silver coins, about 22,500,000 ounces were of Siamese coin, and 15,000,000 ounces were of Spanish coin. Newly mined silver, including over 95,000,000 ounces of Mexican output, accounted for most of the balance.

An agreement on the part of the United States Treasury to take over Chinese silver to provide either foreign exchange or gold for support of the yuan antedates the outbreak of the present war in the Far East. On December 19 Secretary Morgenthau stated that the existing exchange arrangements had been prolonged for a further period beyond December 31, 1938, this following an announcement a few days earlier by the Export-Import Bank of the extension of \$25,000,000 credit for purposes of financing United States exports to China. Now that silver is no longer the money of China our purchases of demonetized metal have rendered important aid to the Chinese in stabilizing exchange and facilitating purchase of materials. The difficulty from the standpoint of the United States is that we already have a great deal more silver than we need.

Output of New Silver

On the basis of preliminary figures, it appears that the world output of silver during 1938 was in excess of the 1937 record of 275,000,000 ounces. The principal increase was in Mexico, where a tendency developed to mine richer ores, said to be motivated by apprehensions growing out of seizure of land and oil properties by the Mexican Government. The rise in Mexican production costs was offset by the decline in the peso from 27¾ cents in February to 20 cents at present. The accompanying diagram, adapted from a diagram in the October 22, 1938, issue of Commerce Reports, published by the U. S. Bureau of Foreign and Domestic Commerce, illustrates the importance of our gold and silver purchases in our trade with Mexico. During 1938 our total purchases from Mexico, including gold and silver, held close to 1937 levels, whereas Mexico's purchases from us declined sharply, owing partly to the decline of the peso and partly to increased tariff duties.



In the United States, where in recent years over 40 per cent of the new silver output—nearly three times as much as before the silver program began—comes from straight silver ores, a decline of about 6,000,000 ounces in production could be ascribed in part to the lower domestic price of silver. As previously stated, domestic producers received in 1938 64.64 cents an ounce, which compares with 77.57 cents from April 24, 1935 to January 1, 1938. The decline in output of non-ferrous metals, of which silver is a by-product, has also been a factor in smaller silver production in the United States and some other countries.

The Patent Monopoly

The patent monopoly is a planned monopoly, provided for by the Constitution and laws of Congress. It was born of an honest purpose to encourage invention and develop the industries, create employment and increase the supply of goods that every one wants. Any criticism of the patent law should recognize this purpose. We know that the principal industries have been aided by patented inventions.

The term of a patent is limited to a comparatively short life, after which the invention is free. An invention normally has an experimental period that consumes an important part of the patent's life, and a period of introduction and business development before the profit-making stage is reached. After success is demonstrated, rivals are soon busy studying how the same results may be accomplished in another way. The safety razors, including the electric shavers, illustrate this experience. The old-time razor was used for many generations before the first "safety" was patented, but after that the new safeties came fast.

The great majority of patent rights are of little practical value. Any one investing in one is commonly thought to be fooling away his money. Undoubtedly, in the aggregate, vastly more money is lost on inventions and patents than is made from them. Inventors and investors bear the risk and the public benefits by the successes. No patented device can win success unless it affords a new convenience or saving of some kind. Hence a success means that the public gains far more than the patent-owner. These facts are pertinent to changes in patent law.

Moreover, after the usefulness of a new patent is demonstrated, the price will be determined by the breadth of the possible market, with a view to obtaining the largest possible aggregate profit, rather than the largest profit per unit of sales. This, as well as potential competition of similar products, may dictate a low price, regardless of the monopoly.

Something of a stir has been made before the Temporary National Economic Committee by testimony that two patent-holding com-

panies control the use of the most economical bottle-making machinery, and through licensing arrangements exercise certain restrictions upon competition. The principal witness testified that virtually all milk bottles, 80 per cent of fruit jars and 80 per cent of packers' glassware were produced by one company's licensees, and that it had thirty-eight licensees.

Apparently no information was given to the Committee to show whether, in actual practice, these controls set up under the law had worked for or against the public interest; and inasmuch as this is an important part of the problem, surely this side of the case should be presented. Many persons remember when glass jars and bottles were rare, and even when the dairyman dipped milk out of a can into a tin pail. The glass milk bottle came in response to a demand for pure milk.

The cheapening of glass products, like the cheapening of other products, has been accomplished by patented machines. The early patents on bottle machines expired some years ago; but the machines have been constantly improved, and patents obtained on the new inventions. The earlier inventions are free to any one's use, but no one cares to use them without the improvements.

Taking, for example, the one quart, heavy duty, milk bottle, we have obtained from a source which we believe reliable the following list of price reductions made since May, 1921; also the subjoined information.

Date Established	Price Per Gross*
May, 1921	\$9.25
September, 1921	8.50
December, 1921	8.00
April, 1922	7.50
September, 1923	7.25
November, 1924	6.85
January, 1931	6.60
October, 1931	6.05
November, 1933	6.50

* Note: Price per gross in large quantities, subject to discount of 65 cents per gross for bulk shipments, not requiring the usual packing.

The reversal of the steady downward trend came in November, 1933, when the N.R.A. raised costs sharply. During the last few years, there has been a substantial increase in labor costs, not only in factory wages per hour, but in freight charges, sand, soda ash, lumber for crating, other business expenditures and taxes (including social security taxes). The increase in costs has been absorbed by the manufacturers, however, and the price of bottles has not been raised since 1933.

At the same time, there have been improvements in the quality of the standard heavy quart milk bottle that are estimated to have doubled its usefulness. The bottles are all machine made, more accurate to measurement, glass is tougher and strength is more evenly distributed. The bottles are less likely to develop fractures from changes in temperature, and less likely to chip off around the lip at the top. The permissible variation from standard measurement of milk bottles in New York State is four drams to the quart (about 4/250ths), but the actual difference in measurement of the bottles now being made on modern machines runs only about one dram (1/250th).

It may be in order to say that the absence of price-cutting among bottle-producers seems to achieve the very ends that the N. R. A. codes,

the Patman Act, and various other proposed acts for limiting competition, have had in view. Moreover, it appears that the ruling motives of the industry have been to improve the product, lower costs and sell more bottles.

It may also be mentioned that paper milk bottles for many years have been on the market, and making a drive for the milk business. In fact, under the fostering influence of the patent system, the entire container industry, — glass, paper, tinplate, aluminum, wood, etc., — is more highly competitive than at any time in the past.

Patent rights, like other "rights," should be judged from the public standpoint. Much depends upon the character of changes that may be proposed. If the patent system has stimulated invention and cheapened products, would the public gain or lose by lessening the present limited and uncertain rewards by legislation that would mean further limitations and uncertainties?

Recent Trends in Corporate Earnings

Readers of this Letter are familiar with the tabulations of profits of leading business concerns published from time to time in these pages. These tabulations have a value in that they assemble and summarize such data on business earnings as are currently available.

They are incomplete, however, in that they are, of necessity, limited to companies that publish annual and interim statements. This means, generally speaking, the larger and better known companies whose securities are listed on the several exchanges. The figures, therefore, tend to reflect the earnings of companies in this class rather than the earnings of all corporations, small as well as large.

The most comprehensive statistics of income are those published annually by the Treasury Department and compiled from the tax returns filed by all corporations in the United States. Although their usefulness is impaired by delay in publication, they are, nevertheless, deserving of careful study by reason of their authoritative and inclusive character. A preliminary report for 1936 has only recently been issued, and reveals significant results, as shown in the accompanying compilation.

Of the 478,857 active corporations filing returns and covered in the table for 1936, a year of substantial recovery, 203,162, or 42 per cent, reported net income after payment of expenses, including interest, while 275,695 companies, or 58 per cent of the total number, were in the red.

Of twenty-four major classifications of economic activity listed, only eight showed a majority of corporations operating in the

Table 1. Preliminary Report for 1936 of All Active Corporations in the United States
(In Millions of Dollars)

Classification	Number Total Active	Reporting Inc.	Gross Oper. Inc.(a)	Total Taxes Paid(b)	Net Inc. after Tax(a)	Net Inc. after to Gross Income	Net Worth Jan. 1	Net Profit after Tax(c)	Net Profit to Worth
Agriculture and related industries.....	8,945	32.6%	\$ 713	\$ 31	\$ 11	1.5%	\$ 1,321	\$ 24	1.8%
Mining and quarrying.....	13,788	37.3	2,099	131	69	2.3	6,556	137	2.1
Manufacturing									
Food and kindred products.....	12,261	50.8	10,342	186	271	2.7	3,904	320	8.2
Liquors and beverages.....	3,060	57.7	1,654	221	118	7.1	666	134	20.0
Tobacco products.....	364	42.0	1,207	79	100	8.3	847	108	12.8
Textile mill products.....	7,685	50.8	4,501	120	132	2.9	2,791	142	5.1
Clothing and apparel.....	8,088	44.9	2,231	15	32	1.4	514	34	6.5
Leather and its manufactures.....	2,344	51.2	1,231	15	27	2.1	573	29	5.0
Rubber products.....	589	56.0	958	39	39	4.1	659	43	6.5
Forest products.....	6,505	48.3	1,741	34	27	1.6	1,535	36	2.3
Paper, pulp and products.....	2,288	62.9	1,714	39	73	4.3	1,555	88	5.6
Printing, publishing and allied industries	12,280	44.5	2,206	51	105	4.8	1,609	132	8.2
Chemicals and allied products.....	6,812	48.5	3,328	128	299	7.3	3,059	395	12.9
Petroleum & other mineral oil prod.....	747	47.9	4,487	164	61	1.4	4,832	180	3.7
Stone, clay and glass products.....	3,798	46.9	1,364	40	104	7.6	1,446	120	8.3
Metal and its products.....	19,034	55.0	12,464	302	757	6.1	10,318	864	8.3
Motor vehicles, complete or parts.....	757	48.5	4,746	92	317	6.7	2,237	356	15.9
Manufacturing not elsewhere classified	5,425	43.8	1,636	41	88	5.4	1,066	115	10.8
Total manufacturing	92,037	49.9	56,410	1,566	2,548	4.5	37,611	3,094	8.2
Construction	16,635	37.2	2,003	23	18	0.9	825	25	3.0
Transportation—Class I steam railways(d)	143	51.1	4,151	320	79	1.9	13,782	165	1.2
Other transportation and public utilities	24,710	45.0	8,320	571	429	5.2	18,581	685	3.7
Trade—wholesale, retail, etc.....	145,520	47.6	43,190	418	669	1.5	10,285	750	7.3
Service—professional, amuse., hotels, etc.	59,703	30.9	4,604	182	-89	-1.9	2,716	-44	-1.6
Finance—banking, insurance, real estate, holding companies, brokers, etc.....	115,697	37.9	7,201	577	-277	-3.8	47,243	1,299	2.7
Nature of business not given.....	1,679	11.7	8	- 5	10	- 5
Grand total	478,857	42.4	\$129,598	\$3,819	\$3,452	2.7	\$138,931	\$6,131	4.4

Source: Compiled from Preliminary 1936 and Final 1935 Reports on Statistics of Income, Treasury Department. — Deficit (a) Includes tax-exempt interest received, but excludes intercorporate dividends received. (b) Includes federal normal tax, surtax on undistributed profits and excess profits tax for 1936, and state, local and other taxes for 1935 (latest available). (c) Includes intercorporate dividends received. (d) Compiled from 1935 and 1936 Statistics of Railways, Interstate Commerce Commission. See also General Note at bottom of next page.

black. For the manufacturing industries alone, slightly less than half were in the black. For all companies combined, including those with deficits, over 97 cents out of every dollar of gross was paid out or reserved for wages and salaries, goods and services purchased from others, depreciation, interest, other expenses and taxes. Aggregate net profits amounted to 4.4 per cent on net worth.

Comparisons with Earlier Years

The longer-term record of profits of all corporations is shown in a condensed summary on the next page covering the ten-year period 1927-36, giving effect to revisions by the Treasury of certain figures for prior years and adjusted throughout to a comparable basis.

Table 2. All Active Corporations in the U. S.
(In Millions of Dollars)

Year	Gross Oper. Inc.(a)	Total Taxes Paid(b)	Net Inc. after Tax(a)	Net to Gross Income	Net Worth Jan. 1	Net Profit after Tax(c)	Net Profit to Worth
1927—	\$143,241	\$8,145	\$6,880	4.1%	\$119,260	\$7,538	6.3%
1928—	151,388	8,387	7,566	5.0	132,403	9,483	7.2
1929—	158,565	8,415	8,084	5.1	142,887	10,677	7.5
1930—	184,017	8,009	1,866	1.0	160,369	3,937	2.4
1931—	106,088	2,630	-3,145	-3.0	161,282	-1,176	-0.7
1932—	80,373	2,873	-5,375	-6.7	143,363	-4,115	-2.9
1933—	83,208	2,547	-2,379	-2.9	133,569	-1,353	-1.0
1934—	99,278	2,758	162	0.2	127,578	2,379	1.9
1935—	111,636	3,363	1,674	1.5	141,585	4,688	3.3
1936†—	129,593	3,819	3,452	2.7	138,931	6,131	4.4
Average 1927-36	\$119,740	\$3,045	\$1,728	1.4	\$140,123	\$3,819	2.7

† Preliminary. For explanation of alphabetical references and significance of this table, see special footnotes following Table 1 and General Note at bottom of this page.

As indicated above, the aggregate net income after taxes in 1936, the fourth year of recovery, was still substantially lower than in any of the three years immediately preceding the depression and considerably less than half the total in 1929.

For the ten-year period, 1927-36, which included both good and bad years, the ratio of net to gross income averaged 1.4 per cent. Net worth increased more than \$42,000,000,000 be-

tween January 1, 1927, and January 1, 1931, but decreased more than \$22,000,000,000 in the following five years to January 1, 1936, as a result of operating losses, payment of dividends out of surplus and writing down of capital. Over the ten-year period, the rate of return on the equity capital invested in American business, subject to all the risks inherent in business, averaged 2.7 per cent, or less than the yield on high grade tax-exempt municipal bonds.

Comparable figures for the manufacturing corporations alone, summarized in Table 3, make a somewhat more favorable showing in 1936 from the standpoint of profits recovery than do those for all corporations combined. Not only was this true of the actual earnings after taxes, but also of the ratio of net to gross income and of the percentage of return on net worth. Evidently the manufacturing industries as a group have proved more adaptable to changing conditions than have some of the groups included in the over-all totals. The difficulties of the railroads and of the public utilities, for example, are well known, while banks and many other concerns in the financial group have suffered from low rates of interest during the period.

Table 3. All Manufacturing Corporations in the U. S.
(In Millions of Dollars)

Year	Gross Oper. Inc.(a)	Total Taxes Paid(b)	Net Inc. after Tax(a)	Net to Gross Income	Net Worth Jan. 1	Net Profit after Tax(c)	Net Profit to Worth
1927	\$63,439	\$1,065	\$2,673	4.2%	\$46,273	\$3,050	6.6%
1928	66,893	1,118	3,460	5.2	48,050	3,935	8.2
1929	71,640	1,161	3,954	5.5	50,017	4,537	9.1
1930	60,428	952	877	1.5	52,695	1,424	2.7
1931	43,716	731	-913	-2.1	52,122	-521	-1.0
1932	31,845	647	-1,827	-5.7	47,640	-1,616	-3.4
1933	35,070	853	77	0.2	43,976	237	0.5
1934	40,763	832	773	1.9	43,342	1,166	2.7
1935	47,334	1,315	1,509	3.2	38,152	2,122	5.6
1936†	56,410	1,566	2,548	4.5	37,611	3,094	8.2
Average 1927-36	\$51,754	\$1,024	\$1,314	2.5	\$45,988	\$1,743	3.8

† Preliminary. For explanation of alphabetical references and significance of this table, see special footnotes following Table 1 and General Note at bottom of this page.

General Note on Tables 1, 2 and 3

In 1936, a number of changes were made in the methods of compiling the statistics of income. Under the Revenue Act of 1936, intercorporate dividends were for the first time made subject to tax, and in the official statistics were included in the statutory net income. This means that the net income, after taxes, of one corporation, when passed on to another corporation in the form of a dividend is again subject to tax and is again counted as "net income" in the official statistics. The result is a duplication, and in many cases a multiplication, of the taxes paid and the reported corporate income.

Many corporations operate certain departments of their business through separately incorporated subsidiaries, or hold stock in other corporations as an investment. Although dividends represent real income to the individual corporation receiving them, they do not, for the corporate system as a whole, represent real income, but merely bookkeeping transfers within the system.

Since 1934 corporations have not been permitted to file "consolidated returns" in which intercorporate transactions are eliminated, as is the usual practice in preparing reports for shareholders and for publication, but are required to file separate returns for

the parent company and each subsidiary. This change also causes duplication in the statistics.

In the net worth figures, made up of outstanding preferred and common stock, surplus and undivided profits, minus deficits, there is also duplication to the extent that the stock is held by other corporations instead of being outstanding in the hands of the public. A minor offset to this duplication is the shortage of balance sheets, due to the fact that some corporations do not submit balance sheets with their income returns from which the net worth figures can be tabulated.

There is a tendency for the amount of this duplication of reported net income and net worth to diminish, because of the action by many large corporations in dissolving their subsidiaries and transferring the business to the parent company, in order to avoid duplicate taxation and to effect other economies.

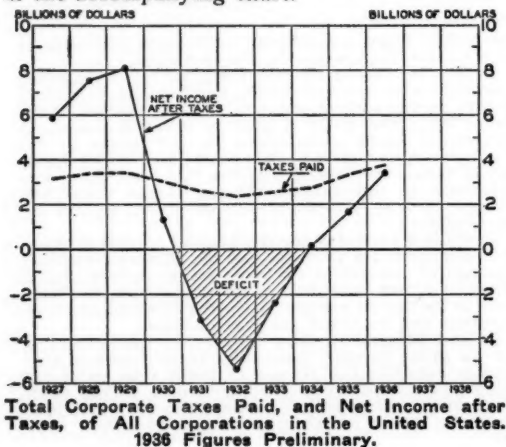
In the summaries here given, the percentage of net to gross income (excluding intercorporate dividends) indicates the margin of profit from sales and other operations, while the percentage of net profit (including intercorporate dividends) to net worth indicates the rate of return upon total shareholders' capital.

In all comparisons of profits trends, account must be taken, of course, of the reduction of net worth caused by disbursements in excess of income and by the writing down of assets during the depression. This reduction of net worth—the base upon which profits are calculated—not only affects the rate of return upon net worth, but also the reported profits themselves, through the lowering of depreciation and other charges. In the case of the manufacturing corporations, the decline in net worth was particularly severe, amounting to over \$15,000,000,000, or approximately 28 per cent. and carrying the total lower than at any previous time during the period covered by the table. As a consequence, the indicated rate of return upon net worth was about equal to the 1927-29 average, although the dollar profits were one-fourth smaller.

The striking depletion of capital shown by these tables, covering industries whose business is subject to constant change and whose plant and equipment rapidly become obsolete, shows the necessity of large investments of new capital if the industries are to be properly maintained.

The Rising Burden of Taxes

One of the most serious problems confronting American industry is the rising burden of taxes—a charge over which corporation managements have practically no control. Federal corporate income taxes comprise roughly one-third of the total, and were in 1936—because of higher rates—as large as in 1929, although corporate income was much smaller. The remaining two-thirds, representing state and local taxes, and based largely on real estate, franchises and gross income, were higher than in 1929. The latter constitute a particularly formidable charge upon industry, since they have little or no relation to profits and have to be paid whether there are any earnings or not. A graphic presentation of the trend of taxes paid and of net income, as given in the table, appears in the accompanying chart.



As the chart shows, the total of all taxes paid in 1936 was larger than in 1929, although the net income after taxes was less than half as large. It is worth pondering that the total of federal, state and local taxes paid by corporations during the ten-year period was 76 per cent larger than the net income available to shareholders. Moreover, since 1936 taxes have continued to rise, while corporate net income has fallen sharply.

The foregoing figures are, of course, exclusive of large amounts of other taxes, such as sales and excise taxes, for which the corporations act merely as collecting agents.

The Depletion of Working Capital

Another comparison that may be made from the Treasury statistics is that of the trend of working capital of all manufacturing corporations, figures for which are now available through the end of 1935.

Table 4. All Manufacturing Corporations in the U. S. (In Millions of Dollars)

Dec. 31	Current Assets	Current Liabilities	Working Capital	Current Ratio
1926	\$26,201	\$14,114	\$12,087	1.86
1927	26,392	12,727	13,665	2.07
1928	27,591	11,596	15,995	2.38
1929	28,006	12,138	15,868	2.31
1930	25,646	11,243	14,403	2.28
1931	22,028	10,581	11,447	2.08
1932	19,068	9,821	9,247	1.94
1933	19,916	9,390	10,526	2.12
1934	20,411	10,347	10,064	1.97
1935	20,829	10,684	10,145	1.95

As indicated above, net current assets of the manufacturing corporations fell more than a third from 1929 to 1935, the losses reflecting deficits and dividend payments out of reserves during the depression, that have never been made up. The trend was sharply downward from 1929 through 1932, followed by a rise in 1933 which reflected in considerable part merely the rebound of commodity prices. Thereafter, working capital remained fairly steady through 1935, the latest year for which official figures are obtainable, and published reports of leading corporations indicate little net change to the end of 1937.

Even with the recovery in corporate earning power, the high corporate taxes (including the penalty surtax on undistributed income) exerted pressure upon management to pay out substantially all the profits instead of using them to rebuild current and fixed assets. In consequence, the working capital position of American industry, measured either in dollars or by the familiar "current ratio"—current assets (cash, accounts and notes receivable, inventories and government securities) to current liabilities (accounts and notes payable, and miscellaneous liabilities other than bonded debt or mortgages)—is probably lower today than it was ten years ago.

Significance of the Figures

The bearing of these facts and figures upon the problem of recovery and employment is clear. A highly organized economic system, such as has been developed in the United States, uses vast amounts of capital invested in plant and equipment for increasing the productivity per worker, and requires a constant stream of new capital investment for repairs, modernization and normal growth. If the capital already invested is earning a fair rate of return, the new capital that is needed will be forthcoming readily from individual and institutional investors and from the retained earnings of business itself. If for any reason, however, a company or an industry is not able or not permitted to earn a reasonable rate of return, or is forced to operate at a loss, it will have difficulty in attracting additional capital. Common or preferred stocks which pay no dividends, and bonds which sell at heavy discounts, repel, rather than attract investors.

At the opening hearings before the Temporary National Economic Committee last month, Dr. Leon Henderson, advisory economist to the W.P.A., formerly to the N.R.A., and now advisor to the Committee, affirmed that, after years of wonderful progress, this country's economic machine had virtually ceased to go forward. Dr. Willard L. Thorp, well-known for his studies of the national income, now economist to Dun & Bradstreet, Inc., but loaned to the Committee, produced evidence that an average of one out of five business concerns (big and little) fails or liquidates voluntarily each year. The Treasury showing, quoted earlier in this article, that 58 per cent of all active corporations were unable to make any net earnings in 1936 is better than the average of the last ten years. However, even in 1929, the percentage reporting deficits was nearly 41.

These conditions are of significance to Labor as well as to Capital, for when business concerns fail they cease to give employment, as seen in the last ten years. On the other hand, when business has prospered in the past, employment has increased, wages have tended upward, and as capital was used to aid labor in production, the standard of living was advanced. Dr. W. I. King, of New York University,—an authority on the national income—in his latest book,* has shown that in the nineteen-twenties the proportion of the realized income from manufacturing and trans-

portation going to employees in the form of wages and salaries was higher than in pre-war years or even in the war years. We quote:

In the fields of manufacturing and transportation, the proportion of the entire realized income of the United States going to employees in the form of wages, salaries, pensions, compensation for injuries, and so forth, was materially higher in the period just preceding the crash of 1929 than it had been in the pre-war years. For example, in the period before 1918, employees received from 78.5 to 79.9 per cent of the total income drawn from the manufacturing industry, but during the period from 1918 to 1925, by contrast, they received from 82.8 to 87.8 per cent of the entire realized income. In the field of transportation, the percentage of realized income going to employees ranged from 63.9 per cent in 1909, to 67.8 in 1916. During the period 1918 to 1925, by contrast, employees received from 75.6 to 82.7 per cent.

The National Bureau of Economic Research, Inc., recently (November 27) issued Bulletin No. 71 in its series of economic discussions. This one, entitled "Hours of Work in American Industry,"** was prepared by Dr. Leo Wolman, of Columbia University, who served as the first Chairman of the Labor Relations Committee of the N.R.A. We quote the introductory paragraph:

It is a commonplace of the economic history of industrial countries during the last century that the hours of work of nearly all classes of employees have been radically and progressively reduced. In 1851 the union of newspaper compositors in New York City recommended to the newspaper industry of that city a work week of six 12-hour days, or 72 hours; in 1938 their week was 37½ hours. Within the last century the printer's week was thus reduced almost one-half, the shortening by 34½ hours representing more than four 8-hour days. Employees in blast furnaces were expected to work a full-time week of 84 hours as late as the turn of the last century, and have seen their hours reduced to 40. From 1890 to 1937, a period during which records of hours of work have tended to become more complete and, on the whole, more reliable, the average length of the work week of factory employees in the United States declined from 60 to probably 42 hours, or 18 a week; of labor in the building trades from 55 to 39, or 16 a week; of steam railroad employees from 60 to 48, or 12 a week; and of anthracite and bituminous coal miners from 60 to 35, or 25 hours a week.

Obviously such gains in labor's position would be impossible without the aid of capital in the form of improved tools and power-driven machinery. Such equipment must be constantly renewed or replaced if progress is to continue or industry even hold its own.

Current surveys of business conditions are stressing the need for a revival in the capital goods industries. Unemployment is at its worst there, and after nine years of wear, tear and obsolescence, the industries are badly behind. Capital is not to be had without a prospect for profit, hence all classes have an interest in the preservation of adequate rewards to those who risk their funds in enterprise.

* Page 105, "Causes of Economic Fluctuations," Ronald Press, Publishers, New York City; price \$3.50.

** National Bureau of Economic Research, Inc., 1819 Broadway, New York City; Bulletin 71, 20 pp.; price 25 cents.

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Branches in Greater
New York



Seventy-two
Offices in Twenty-five
Foreign Countries

Condensed Statement of Condition as of December 31, 1938

INCLUDING DOMESTIC AND FOREIGN BRANCHES

ASSETS	
Cash and Due from Banks and Bankers.....	\$ 531,718,844.27
Bullion Abroad or in Transit.....	6,490,724.61
United States Government Obligations (Direct or Fully Guaranteed).....	668,795,810.07
Obligations of Other Federal Agencies.....	40,428,883.99
State and Municipal Securities.....	86,257,122.95
Other Securities.....	68,758,413.61
Loans, Discounts and Bankers' Acceptances.....	521,981,489.03
Customers' Liability for Acceptances.....	12,288,747.10
Stock in Federal Reserve Bank.....	3,705,000.00
Ownership of International Banking Corporation (Including Paris Office).....	8,000,000.00
Bank Premises.....	46,556,997.28
Other Real Estate.....	757,883.12
Real Estate Loans and Securities.....	9,404,804.12
Items in Transit with Branches.....	2,956,756.08
Other Assets.....	1,081,163.58
Total.....	\$2,009,182,639.81
LIABILITIES	
Deposits.....	\$1,835,286,500.36
Liability on Acceptances and Bills.....	\$34,485,834.01
Less: Own Acceptances in Portfolio.....	10,026,957.06
Reserves for:	
Unearned Discount and Other Unearned Income.....	3,420,666.27
Interest, Taxes, Other Accrued Expenses, etc.....	5,361,656.55
Dividend.....	3,100,000.00
Capital.....	\$77,500,000.00
Surplus.....	46,500,000.00
Undivided Profits.....	13,554,939.68
Total.....	\$2,009,182,639.81

Figures of Foreign Branches are as of December 24, 1938.

\$44,468,617.25 of United States Government Obligations and \$27,719,950.78 of other securities are deposited to secure \$48,317,828.43 of Public and Trust Deposits and for other purposes required by law.

(Member Federal Deposit Insurance Corporation)

City Bank Farmers Trust Company

Head Office • 22 WILLIAM STREET • New York

Condensed Statement of Condition as of December 31, 1938

ASSETS	
Cash and Due from Banks.....	\$ 39,482,154.22
United States Government Obligations (Direct or Fully Guaranteed).....	33,082,455.86
Obligations of Other Federal Agencies.....	4,519,215.08
State and Municipal Securities.....	7,879,258.50
Other Securities.....	3,238,816.61
Loans and Advances.....	5,274,567.40
Stock in Federal Reserve Bank.....	600,000.00
Bank Premises.....	4,129,436.25
Other Real Estate.....	540,239.06
Real Estate Loans and Securities.....	7,197,377.54
Other Assets.....	1,906,805.88
Total.....	\$107,850,326.40
LIABILITIES	
Deposits.....	\$ 80,108,922.88
Reserves.....	3,303,305.02
Capital.....	10,000,000.00
Surplus.....	10,000,000.00
Undivided Profits.....	4,438,098.50
Total.....	\$107,850,326.40

\$1,545,769.40 of United States Government Obligations are deposited with public authorities for purposes required by law.

(Member Federal Deposit Insurance Corporation)

